

Energy Monitor

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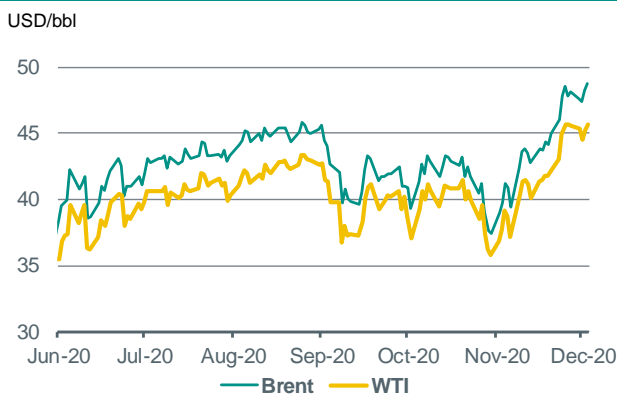
OPEC+ (ultimately) delivers

- ▶ **OPEC+ increases production by 500 kb/d in January**
- ▶ **After that, OPEC+ will evaluate on a monthly basis whether there is room to increase production further**
- ▶ **Oil prices had already risen before the decision, and seem to be capped**
- ▶ **2021: Oil prices caught between hope of restoring demand and fear of overproduction**

OPEC+ decides to increase production only gradually in Q1 2021

After lengthy consultations, OPEC+ (OPEC, together with its partners led by Russia) has reached an agreement on the level of production. It was decided to increase oil production by 500,000 barrels per day (500 kb/d) in January. OPEC+ will then decide in the first week of the month whether production can be further increased, with a maximum of 500 kb/d each month. With the continuing partial lockdowns and the major impact on international air traffic, the demand for oil will remain low for longer than previously thought. In order to prevent a new oversupply and to lower global oil stockpiles, OPEC+ will therefore evaluate and possibly adjust its decision-making more often.

Oil prices: measures were already priced in



Source: Bloomberg

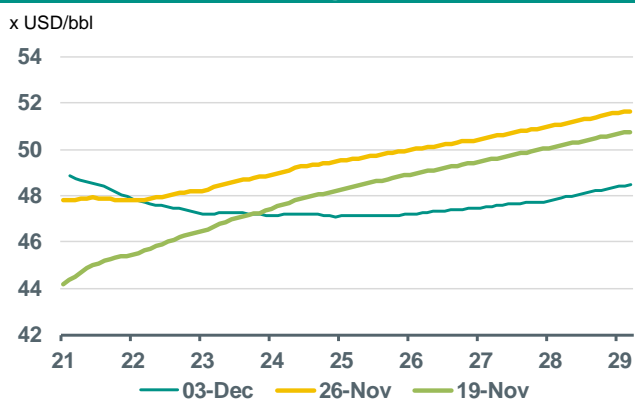
In April 2020, OPEC+ had decided to take drastic action to reduce the resulting oversupply and large stocks. This oversupply on the market was caused by the drop in demand for oil as a result of measures to combat COVID19. The agreement that was concluded consisted of three stages. The first phase consisted of a reduction in production of 9.7 million barrels per day (mb/d) in May and June 2020. In the subsequent phase, production was reduced by 7.7 mb/d (from 1 July to the end of December 2020). The third phase would run from January 2021 to April 2022 with a production

cut of 5.8 mb/d as the target. This has now been adjusted to increase production in January to a net -7.2 mb/d and a monthly review to further increase production if possible.

Oil prices were already ahead of the decision

The oil market was already anticipating the decision to keep production lower for longer. When, about a week and a half ago, the first sounds were heard that OPEC+ would not increase its production as initially announced, many speculative investors took a long position (speculating on price gains). At the same time came the news of the COVID19 vaccines. The expectation of higher demand for, and less supply of, oil allayed concerns about oversupply. As a result, oil prices rose. The Brent oil price approached USD 50/barrel and the STI oil price rose to almost USD 48/barrel. The first part of the forward curve (range of current prices for future delivery) changed from contango to backwardation. In other words, where prices for future delivery were initially more expensive than those for very short-term delivery, the situation turned the other way around. So today's prices are higher than oil prices for future delivery. From 2024 onwards, on the other hand, prices are trading lower. It indicates that the financial market believed that the price for delivery in the coming months had risen a little too fast in recent weeks, and that there is a threat of further oversupply in the longer term.

Forward curve: from contango to backwardation



Source: Bloomberg

So the price of oil has risen rapidly in recent weeks. As a result, the need not to increase production actually decreased slightly. The United Arab Emirates and Kazakhstan suggested increasing production at this higher price of oil anyway. At the end of the OPEC meeting on Monday, it became apparent that the members were not in agreement and that a rapid agreement was not feasible. So the OPEC+ meeting was postponed from Tuesday to Thursday.

It was almost impossible for OPEC+ to surprise the market positively. There was no need to reduce oil production any further or any deeper. The rolling-out of the vaccines seems to start soon and may speed up from the second quarter in 2021. The economy will then recover, and the demand for oil will continue to grow. So within the prospects of OPEC+ there is even room to increase production slightly from January onwards. It is therefore a matter of waiting for profit-taking by investors and market speculators on the long positions that have already been built up (speculating on price rises) or taking a position speculating on price decreases (short positions).

Oil prices caught in a narrow bandwidth for 2021

Looking ahead to 2021, we believe that the main themes will remain unchanged. The demand for oil is dominated by the consequences of the fight against COVID-19. The sooner a working vaccine can lead to a relaxation of lockdowns, the sooner the demand for oil will recover. The market continues to pay attention to OPEC policy. However, we expect a rapid revival of the US shale oil industry to take much longer. The new legislation on production on federal land, stricter

environmental requirements by the Biden Administration, and the increasing difficulty of finding funding for shale oil/gas, will put a ceiling on oil production in the US. Finally, a weaker dollar will support oil prices traded in dollars. However, the upward price potential will be limited by the large (reserve) production capacity which, if the price rises too much, allows for a rapid increase in oil production by OPEC+ countries. Our oil price estimates for 2021 remain unchanged for the time being. For Brent this means an average price range of USD 45-50/barrel, for WTI USD 41-45/barrel.

Forecasts oil and gas prices

End of period		03-Dec	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Brent *	USD/bbl	48.82	45	50	45	45	50	55	55	55	55
WTI *	USD/bbl	45.73	40	45	42	41	45	50	50	50	50
Natural Gas (HH) *	USD/mmBtu	2.52	2.50	2.50	2.25	2.50	2.75	2.50	2.20	2.30	2.50
TTF *	EUR/MWh	13.38	15	15	14	15	17	18	17	18	18

Average		2019	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22	2022
Brent	USD/bbl	64.17	40	40	48	48	45	48	47	53	55	55	55
WTI	USD/bbl	57.00	36	37	43	44	42	43	43	48	50	50	50
Natural Gas (HH)	USD/mmBtu	2.53	2.50	2.10	2.50	2.40	2.40	2.60	2.50	2.60	2.40	2.30	2.40
TTF	EUR/MWh	14.55	15	14	15	15	15	16	15	18	17	18	18

* Brent, WTI and Henry Hub: active month contract; TTF: next calendar year

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